





# MALAYSIAN PALM OIL FORTUNE

MALAYSIAN PALM OIL COUNCIL

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VOL: 12 2011

## China's Animal Feed Industry A Potential Market for Malaysian PKC

IN TERMS of population, China is the most populous in the world, and with a territory of about 9.64 million sq-km, it is the third largest country on our planet. Since the Chinese government implemented its policy of reform and opening up, China's economy made remarkable achievements and in 2010, overtook Japan to become the world's second largest economy. Given the population and continuing economic development, this amazing market appeals to the investors all over the world. China is also a well-known agricultural country.

However, a series of food safety scandals occurred in succession in 2011. Up to the earlier part of 2011, the top quality food safety watchdog found the banned additive clenbuterol in pork products in the domestic retail market. Clenbuterol usually helps to build muscles and is occasionally used as an illegal performance-enhancing drug by track and field athletes. China has banned it as a livestock feed additive as it can cause nausea, dizziness, headaches and heart palpitations in humans.

With more food safety scandals subsequently, China's State Administration strengthened the supervision and control of not only food products, but also raw materials,

including animal feed as well as its raw materials. The State Council ratified the revised draft of the regulations, which hold local governments responsible for irresponsible supervision of the illegal use of feed additives and low feed quality. Severe punishment will face those who violate the regulations and the local government as well, for lack of supervision.

### Industry Development Scenario

In 2010 alone, China's animal feed industry continued to grow steadily and adjust to industrial structures. The annual output of feedstuff reached 162 million metric tonnes (MMT) and up 9.4% as compared with the previous year. It had been the sixth consecutive year when output was more than 100 MMT. There were a total of 10,843 feed processing enterprises over the country.

The industrial structure of feedstuff was optimised through years of development. The output of formula feed touched 129.74 MMT in 2010 and increased by 59.33% against 81.43 MMT in 2006. Meanwhile, the share of formula feed increased to 80% in 2010 from 72% in 2006. The annual yield of concentrated feed and additive premix feed both experienced a downtrend and decreased to 26.48 MMT and 5.79 MMT respectively in 2010.

Among the feedstuff, swine feed was the major contributor for domestic output growth. It reported a total of 59.74 MMT in 2010, up 13.4% from a year earlier. During the same period, most animal feed maintained a growing trend, especially ruminant feed, of which 7.28 MMT was produced in 2010 and production grew 23.1% over the same period in 2009.

China's feed production bases are mainly located in the eastern and central provinces. The steady integration of regional productivity and the intensified development of major provinces were a feature of the domestic animal feed industry. In 2010, output in China's eastern region accounted for 59% of the overall production, with 95.66 MMT of feedstuff, while the central region contributed 36.41 MMT. Furthermore,

Table 1: Top 5 Province in China

2010 Top 5 Province for Feed Production (million tonnes)		
Guangdong	18.81	+7.3%
Shandong	18.20	+8.5%
Henan	11.54	+10.3%
Liaoning	11.23	+8.2%
Hebei	10.86	+19.4%

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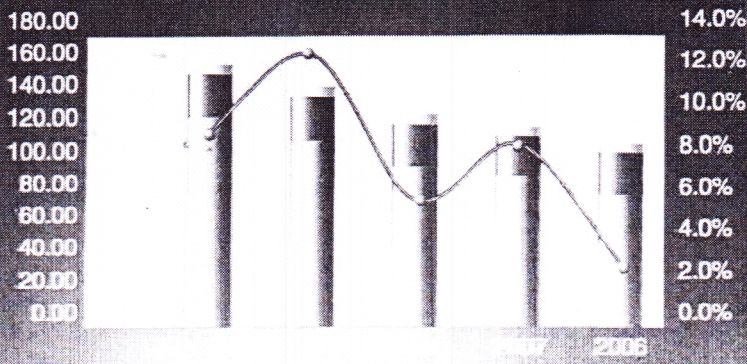
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2006-2010 China Feedstuff Output (million tonnes) and Growth







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## Update on the Indian Vegetable oils Scenario

INDIA has experienced many ups and downs since it embarked on the path of economic liberalisation and growth in the early 1990s. With economic growth, consumerism has arrived, though with not many corresponding increases in domestic production in several fields. One such area is vegetable oils, where domestic production has not kept pace with growth in other economic areas.

Being among the top ranked economies, both in absolute terms and in Purchasing Power Parity (PPP) terms, consumer demand in India will continue to rise. However, is the country well positioned to meet the challenges?

### Oilseeds Production

The table below reflects the development, or lack of it, in domestic oilseeds production from 1999 to 2000.

Even a cursory glance at the table will be sufficient to bear this out. In the last 12 years, the production of the eight major oilseeds grew, touching 27.98 million MT in 2005-06 and thereafter, it dropped to 22.76 million MT in 2009-10. Annual fluctuations have been drastic, mainly due to weather conditions and farmers shifting to more lucrative crops. The lowest production recorded during this period was 14.84 million MT in 2002-03. Thus, in spite of the growing demand for oils, domestic production has stagnated.

What is of interest in this otherwise gloomy picture is the change in the

composition of production. Groundnut has lost its premier position to soybean. Today, soybean is the single largest oilseed produced in India and with higher-yielding varieties being more readily available, it is set to improve its share in the basket of domestic oilseeds. This greater availability of domestic soybean is also influencing the taste buds of consumers.

One can only conclude that the demand/supply gap cannot be bridged by domestic production alone and India will continue to rely heavily on imports to meet the shortfall. Since the oil year 2008-09, imports have accounted for slightly more than 50% of the total domestic demand and this ratio is set to continue, or rather increase, well into the years to come.

### Oil Imports

The table below shows that in the last six years, India imported between 5.1 million MT and 9.2 million MT of various vegetable oils, principally palm oil and soybean oil.

Except for 2009-10, the table on page 5 shows a clear shift in favour of palm oil. There is no reason for this trend to reverse in the near future, in spite of a marginal shift seen in 2009-10. This shift is attributed to the narrowing down of the price premiums of SBO over PO. Such marginal adjustments will continue to take place whenever the prices between SBO and PO narrow but overall, PO should retain its predominant position in the import basket. The duty differential between SBO and PO is an issue behind us now, with all crude vegetable oils becoming zero-rated.

Another factor that becomes obvious from the table above is that among the palm group of products, there has been a clear shift from olein to CPO up to

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2007-08. This is because of the increase in the refining and fractionation capacities within the country. The capacities are increased every year and there does not seem to be any possibility of a reversal of this trend. However, since the duties on all vegetable oils were reduced in 2008 (zero for crude oils and 7.5% for refined oils), there has been an upswing in the import of RBD palm olein. This increase will have limitations and CPO will continue to be the single largest imported vegetable oil by far.

### Per capita Consumption and the Economy

The per capita GDP has shown an appreciable increase, crossing US\$1,000.

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India's Production of Cultivated Oilseeds 1999 - 2000 to 2010-11(E) (million MT)

Sr. No.	Oilseeds	2010-11	2009-10	2008-09	2007-08	2006-07	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00
1	Groundnut	5.84	5.12	5.92	6.89	4.86	7.99	6.77	8.13	4.12	7.03	6.41	5.26
2	Rapeseed & Mustard	7.10	6.03	6.35	4.79	7.44	8.13	7.59	6.29	3.88	5.08	4.19	5.79
3	Sesamum	0.76	0.76	0.56	0.66	0.62	0.64	0.67	0.76	0.44	0.7	0.52	0.48
4	Soybean	9.50	8.50	8.9	9.46	8.85	8.27	6.87	7.82	4.65	5.93	5.28	7.08
5	Sunflower	0.65	0.99	1.15	1.46	1.23	1.44	1.19	0.93	0.67	0.66	0.63	0.69
6	Niger	0.10	0.08	0.08	0.07	0.12	0.11	0.11	0.11	0.09	0.13	0.11	0.15
7	Others	0.13	0.14	0.13	0.13	0.17	0.17	0.17	0.12	0.13	0.21	0.12	0.17
8	Total	27.98	22.76	27.98	27.98	27.98	27.98	27.98	27.98	27.98	27.98	27.98	27.98





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## China's Oleochemical Industry: Times of Threat also Become opportunities

SINCE 2010, a number of unfavourable incidents have occurred around the world, such as the European sovereign debt crisis, weak American economic recovery, the earthquake and tsunami in Japan as well the nuclear leakage accident. These have deeply impacted continued global economic development.

However, China could maintain the rapid and steady pace of its economic growth, driven by the country's positive financial policy and the easy monetary policy. China's GDP growth increased by 10.3% in 2010 and at the same time, the country's national economic aggregates exceeded Japan's, making it the second-largest economy in the world. The living conditions of the people improved significantly and China also became the biggest market for automobile sales.

Improvements in China's national economic development and living conditions stimulated the tremendous consumption potential of its 1.3 billion population. Driven by the demands for rubber, plastics, surfactants, medicine, cosmetics and detergent products, China's oleochemical industry enjoyed great opportunities and made considerable progress in the last two years.

As Table 1 shows, China's oleochemical production recovered and grew in 2009 after the global financial crisis of 2008, and achieved rapid growth in 2010. Fatty acid production reached 1,168,000 metric tonnes (MT), with a high growth of 49.6% as compared with the previous year, while fatty alcohol production also increased by 40.6% from a year earlier, to hit a record of 187,000 MT.

Apart from the strong demands from the domestic market, there are two other factors for the high growth of China's oleochemical industry. One of the factors is the new, advanced oleochemical production technology developed by the

production through the efforts of the China Cleaning Industry Association and other related government agencies.

China's oil and fat hydrolysis and fatty alcohol production capacity doubled to one million MT and 320,000 MT respectively between 2008 and 2010. There were two major contributors for the rapid development of the oleochemical

oleochemical production, with fatty amine production surpassing the level of 100,000 MT a year. Feixiang Chemical and Boxing Huarun are the two major producers that account for 90% of the domestic market. Fatty amine is only one of the basic oleochemical products that China can produce sufficiently and also export to other countries and this success is due to the modern and competitive technologies used in its production.

Glycerine production also experienced a rapid increase and touched 144,000 MT in 2010. According to Customs statistics, the import of glycerine registered 141,200 MT in the same year. In addition

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Table 1: 2008-2010 China Oleochemical Industry Production\* ('000 MT)

Category	2008		2009		2010	
	Production	Growth (%)	Production	Growth (%)	Production	Growth (%)
Fatty Acid	647.0	-7.7	781.0	+17.2	1168.0	+49.6
Fatty Alcohol	123.0	-16.9	133.0	+7.5	187.0	+40.6
Fatty Amine	105.0	+16.7	109.0	+3.8	121.0	+11.0
Glycerin	99.0	+8.8	135.0	+26.7	144.0	+6.7
Soap	747.5	~	883.2	+18.2	~	~
Alkylbenzene**	487.0	-2.0	484.0	~	449.0	+3.1

\*Source: China Cleaning Industry Association

\*\*Alkylbenzene is petrochemical product and the main material for washing powder

industry. The oleochemical magnates from Southeast Asia, such as Wilmar, Tech Guan High-tech and Dongma Palm Industry, paid greater attention to the Chinese market, while local private enterprises also made substantial investments in the oleochemical industry.

The industrial players from Southeast Asia not only invested in terms of funds, but also introduced the most advanced industrial technologies to China. For example, Tech Guan High-tech adopted the innovative technique of hydrolysis and esterification developed by the German Lurgi Group to produce fatty acid and fatty alcohol. Sasol Yinai used the new process of Low Pressure Vapour Phase Hydrogeneration developed by the British David Company to produce fatty alcohol. These technology introductions brought domestic manufacturing process upgrading and

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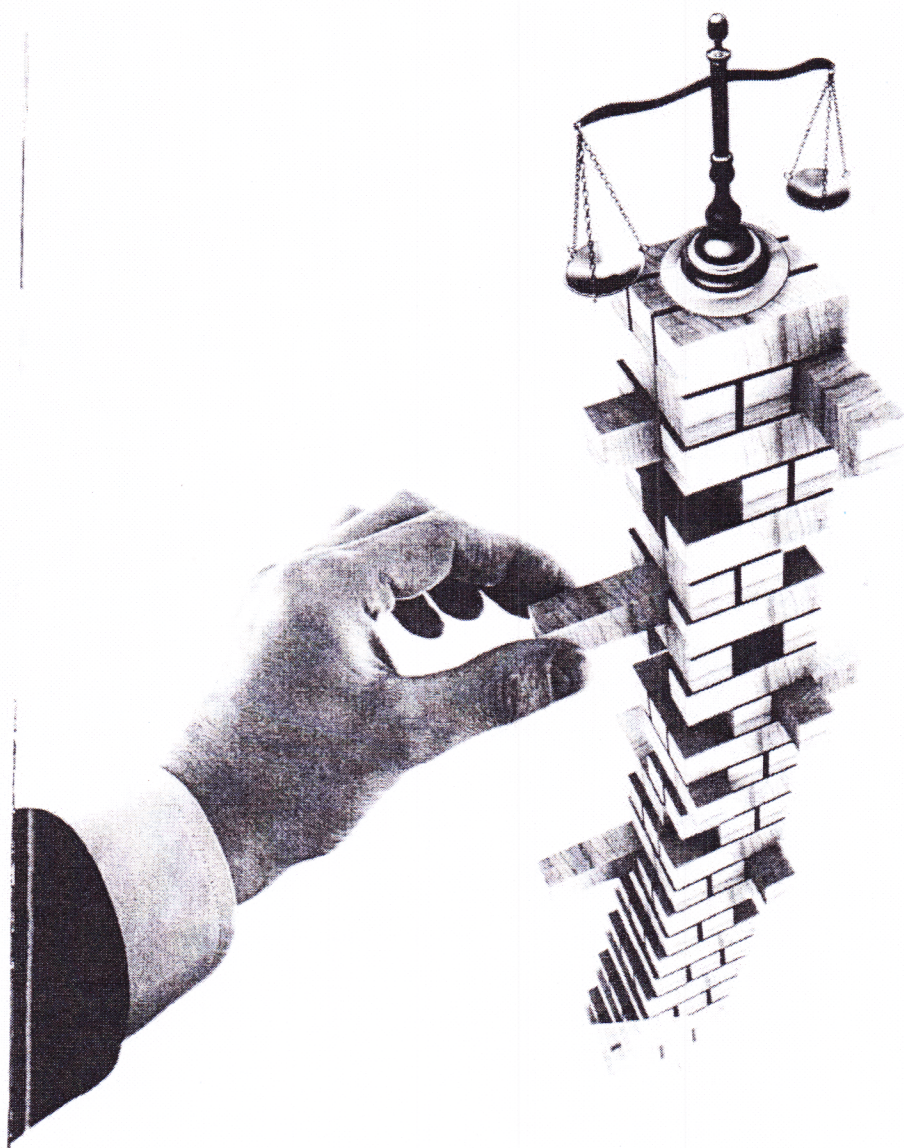


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## SCANDAL UNMASKED

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**U.S. Department of Justice**

National Security Division

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*Washington, DC 20530*

**FEB - 1 2012**

Ms. Monica Prah Schulteis  
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1825 Eye Street, NW  
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Re: American Palm Oil  
Registration No. 4575

Dear Ms. Schulteis:

This is in reference to your request on January 30, 2012, wherein you requested an additional one week extension to file on the behalf of American Palm Oil their supplemental statement for the six month reporting period ending December 31, 2012 with a deadline of January 31, 2012.

Your request for an extension has been granted. Accordingly, the supplemental statement should be filed on or before February 7, 2012.

If you have any questions, please contact Mr. Alex Mudd of my staff at (202) 233-2271.

Sincerely,

A handwritten signature in cursive script, likely belonging to Heather H. Hunt, is positioned above the typed name.

Heather H. Hunt, Chief  
Registration Unit  
Counterespionage Section  
National Security Division